Anglian Water

PR19 CMA Redetermination

Annex 2: Finance

Submitted 3 February 2021

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Annex 2: Finance

1 Introduction

(1) Anglian's substantive responses to the WACC working papers have already been received by the CMA. There is one specific build on those responses, where Anglian includes below an explanation of how the glidepath it proposed in its 27 January 2021 response on the cost of embedded debt could work in practice.

(2) There are also a small number of high-level issues which the CMA addressed in detail in its PFs that Anglian briefly reflects on below:

(i) **Financeability**: The CMA's position in the PFs, reinforced in the Working Papers, was clear on the importance of the cross-check on notional company financeability. As Peter Simpson's letter to Kip Meek of 3 February 2021 notes, Anglian is reassured by Kip Meek's letter of 25 January 2021 that suggests there would be no fundamental change to CMA's PFs position without consultation. The CMA did not consult on its approach to notional company financeability as part of the Cost of Capital Working Papers. In that regard, Anglian has two particular concerns. First, that the change from PFs to the Working papers with respect to the cost of embedded debt for the notional company has a significant negative impact on the financeability of the notional company. Second, Anglian has previously outlined its concerns with artificial adjustments to solve for financeability constraints. Given that the CMA has not consulted on any such adjustments, Anglian would not expect a fundamental change in approach from the CMA's PFs.

(ii) **Opex-capex misallocation**: The CMA's PFs made clear that it accepted, in principle, Anglian's arguments on the opex/capex allocation, conceding that an adjustment to the PAYG rate would be required. Anglian was asked to provide the CMA with the data that would allow the error to be corrected, which it has now done. Anglian would therefore expect this error to be corrected, using Anglian's data as supplied, within the Redetermination.

(iii) **Gearing Outperformance Sharing Mechanism**: While briefly touched on in the WACC Roundtable, where the Ofwat Chairman accepted that the justification for this (i.e. that companies with higher gearing also performed poorly) did not apply to Anglian, this was not subject to further consultation through the Working Papers. Again, the CMA's assessment was clear in the PFs that Ofwat's mechanism was not well-founded, represented a significant break from well-established regulatory approach and should therefore be disapplied. For this and other areas of the financing arguments, we note that there has been no substantive new material put before the CMA, and no further consultations or RFIs issued. We therefore see no reason why the CMA should depart from the conclusions it reached in its PFs.

Cost of debt

1 Cost of debt: selecting a point estimate

1.1 There is no evidence to suggest that Anglian has raised debt inefficiently in the past or should have taken on more risk

(3) CMA considers that 4.52% represents an appropriate allowance based on (1) a 15Y collapsing average (2) the lower end of the range derived based on a review of industry actuals. However, there is no evidence that any Anglian debt was raised inefficiently on an *ex ante* basis.

(4) As a result, a policy is being proposed which results in a material loss *ex post* for Anglian (c.£100m across AMP7).

(5) A point estimate of 4.52% represents either a 45bp penalty for Anglian for "inefficiency" or suggests *ex post* that AWS should have taken on more risk (which implies that *ex ante* Anglian should have predicted the financial crisis and that interest rates would fall thereafter).

(6) Ofwat stated in the Roundtable that the penalty reflects Anglian's 'non-operational finance' pre-2005.[1] Anglian has provided extensive evidence including five counterfactual scenarios (which show that Anglian's cost of debt would have been higher without the 2002/03 refinancing) and analysis from KPMG (which shows that Anglian's debt has been raised efficiently).[2]

(7) There should be a high hurdle for *ex post* changes to penalise financing costs that were efficient when raised or to suggest with the benefit of hindsight that a company should have adopted a different risk position. There is no evidence to suggest that on an *ex ante* basis (1) Anglian raised debt inefficiently; or (2) was wrong to raise long term financing in line with regulatory guidance at the time.

2 Options for reaching a final decision on the cost of Anglian's embedded debt

(8) Notwithstanding the strong principled objections Anglian maintains against retrospective changes to regulatory policy, if the CMA does maintain the position in the Working Paper to change policy *ex post* from long term financing to 'matching' company actuals, the estimate of those actuals must be correctly undertaken, or a glidepath is needed to support recovery of efficient costs.

(9) Anglian considers that there are therefore three options available to the CMA. The first is to follow Anglian's assessment of the correct cost of embedded debt for the notional company, which is **4.95%** based on a 20Y collapsing average.

(10) If the CMA nonetheless considers that a matching adjustment should be applied (which Anglian disagrees with) it should correct the estimates underpinning its matching adjustment. This would mean the 20Y collapsing average would correctly approximate the features of actual company financing and result in a cost of embedded debt of **4.87%**.

(11) A further option would be to introduce a **glidepath** from the 20Y collapsing average to the 15Y trailing average in the Working Paper, resulting in an average cost of embedded debt of **4.83%**.

2.1 Corrected version of the matching adjustment

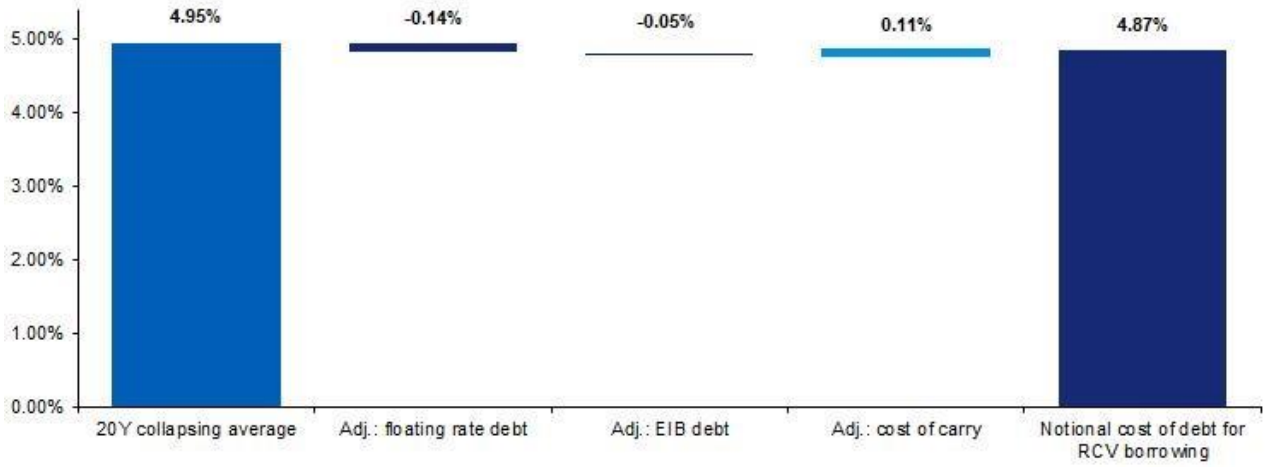
(12) A corrected version of the matching adjustments considered by the CMA starts from the 20Y collapsing average and reflects adjustments which correctly estimate the impact of EIB (European Investment

[1] *See* Cost of Capital Roundtable Transcript (20 January 2021), page 18, line 3.

[2] *See* KPMG Embedded Debt Report (SOC441).

Bank) debt and floating rate debt and include the costs of carry (additional commentary each of these adjustments is set out below).

Figure 1 Overview of corrected matching principle



(13) Adjusting the 20Y collapsing average for (1) floating rate debt (-14bp)[3]; (2) EIB debt (-5bp)[4]; and (3) cost of carry (+11bp)[5] implies a cost of debt of 4.87%. More detail on these adjustments is set out below.

2.2 Introducing a glidepath

(14) We also set out in our final response on 27 January 2021 that should the CMA choose to maintain the broad approach set out in its Working Paper, which Anglian disagrees with, Anglian proposes that the CMA should recognise the scale of change it is proposing, and that steps should be taken to limit the impact of any retrospective changes in policy and risk allocation to reflect the movement in interest rates over time.

(15) This can be achieved by creating a glidepath that means that companies which issued efficient long-term financing in line with past Ofwat policy are not unduly not penalised ex post.

(16) The 20Y collapsing average is conceptually the right starting point for any glidepath[6]. We show below a glide path from the 20Y collapsing average (4.95%) to the new 15Y trailing average (4.72%) based on the CMA's ex post methodology by the end of AMP7. This implies an average cost of embedded debt of 4.83%.

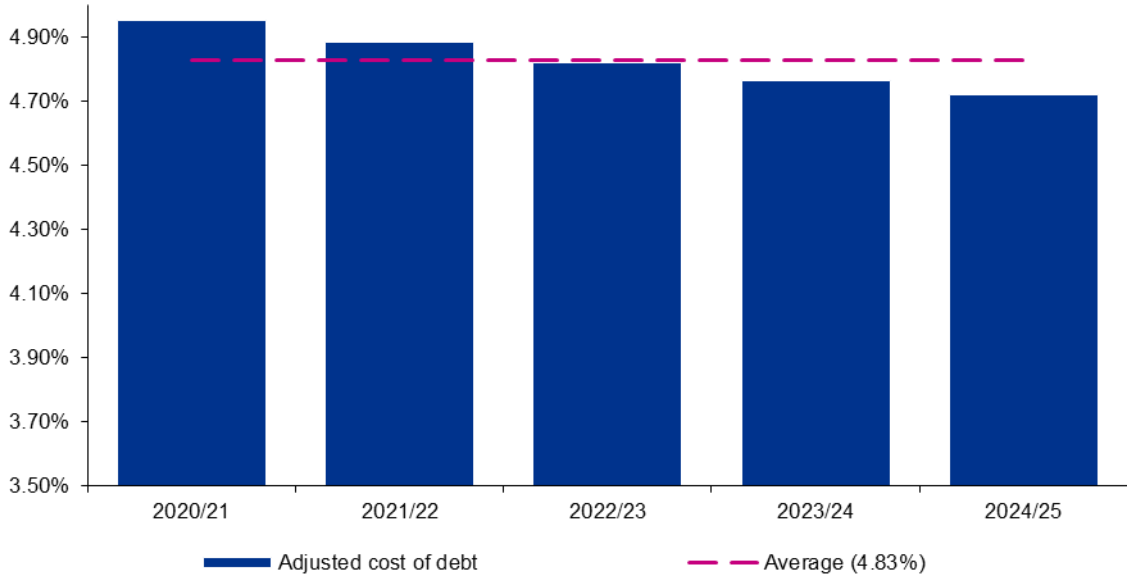
[3] Anglian, Additional Points on Cost of Debt, Response to CMA's Cost of Capital Consultation (REPCOC001); AWS response to CMA working paper databook FINAL.

[4] *Ibid*.

[5] Anglian, Additional Points on Cost of Debt, Response to CMA's Cost of Capital Consultation (REPCOC001).

[6] Anglian, Full response to the CMA's working papers on Cost of Capital, page 5.

Figure 2 Glidepath for a company like Anglian from 20Y collapsing average to 15Y trailing average



2.3 Correcting errors in the CMA's matching adjustment calculation (EIB costs, floating rate debt proportion and allowing for costs of carry).

European Investment Bank (EIB) and floating rate debt

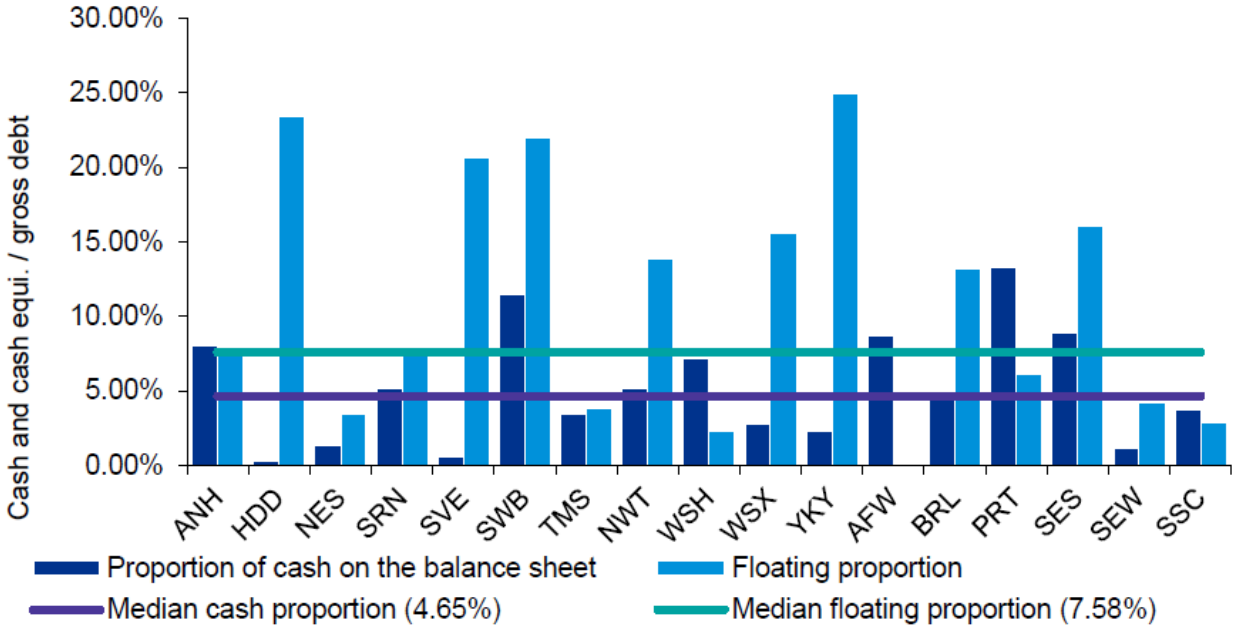
(17) We have set out in our initial response to the CMA's working papers on 18 January 2021 that the quantum of the EIB adjustment is overstated: the correct adjustment is around 5bps. We also set out in the same response why the quantum of the floating rate matching adjustment would, if applied, only be 14bps.

Cost of carry

(18) The figure below shows that the proportion of floating rate debt (7.58% sector median) to the proportion of cash held on the balance sheet (4.65%) over the last 5 years has been largely consistent with one another.[7]

[7] Anglian, Additional Points on Cost of Debt, Response to CMA's Cost of Capital Consultation, page 6 (REPCOC001).

Figure 3 Floating rate proportion vs proportion of cash over the last 5 years



Source: APR table 1E data.

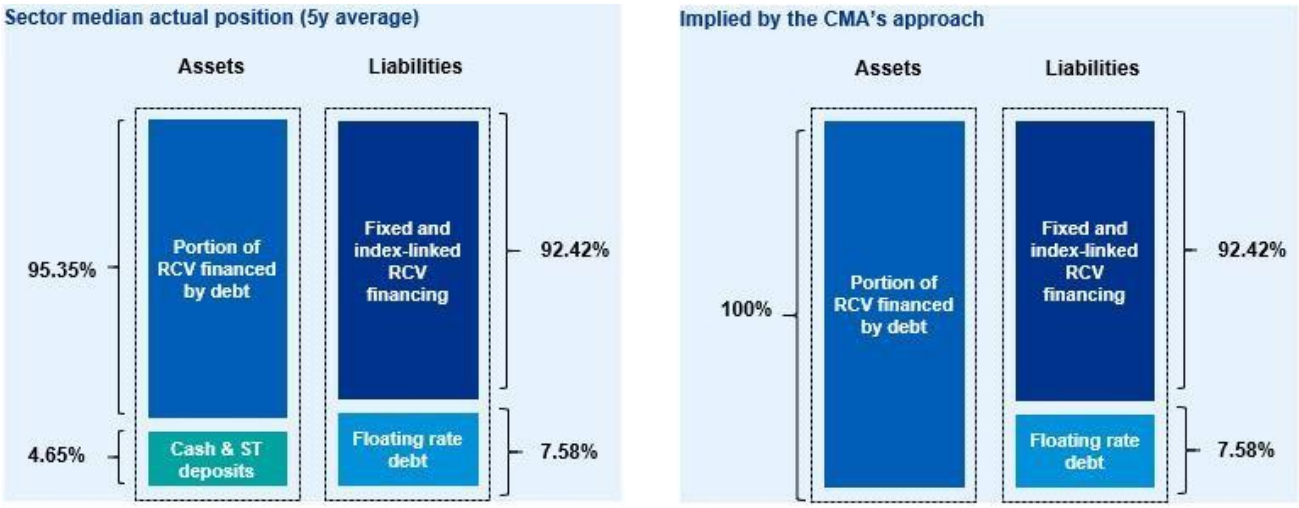
(19) This observation (that floating debt is closely linked to financing cash rather than the RCV) has been explicitly recognised by regulatory policy in the past, from both Ofwat and the CMA. Specifically, it has consistently been assumed that for the notional company the impact of cost of carry and floating rate debt offset one another, which allows analysis of notional company costs to focus on long term RCV financing. For example, Ofwat states:

"We have made an allowance for the cost of holding cash 0.20% within our assessment of the actual cost of debt, consistent with Bristol Water's submission and the assessment of the Competition Commission in 2010. We do not include these holding costs in our notional cost of debt as they are offset by the lower cost of short term floating debt, which is not factored into our notional cost of debt"[8]

(20) Overall floating rate debt predominantly corresponds to financing cash held on company balance sheets and relates to cost of carry rather than financing the RCV per se:

[8] Ofwat's reply to Bristol Water's Statement of Case in *Bristol (2015),* page 81, para.310 available here.

Figure 4 Comparison of floating rate debt and cost of carry



(21) The figure above clearly illustrates that the majority of floating rate debt for the median company is financing cash not the RCV; as a result, an adjustment for floating rate debt cannot be made without a corresponding adjustment for cost of carry. We estimate the impact of cost of carry at 11-14bps based on the 5Y average cash positions, in line with Ofgem's point estimate (10bps) for RIIO-2.

Table 1 Estimate of costs – cost of carry

		% cash on balance sheet	Cost of carry
Sector	Median	4.65%	0.12%
WaSC	Average	4.33%	0.11%
WaSC & large WoC	Average	4.42%	0.12%
Sector	Average	5.17%	0.14%

Source: AWS analysis and databook (27 January 2021)[9]

3 Cost of debt methodology replies to Ofwat's Working Paper Responses

3.1 Ofwat's policy of ex post assessment of 'reasonable' allowance undermines stability and predictability of the regulatory framework

(22) Ofwat defines its policy as providing a 'reasonable' allowance for embedded debt.[10] However this policy has no meaning on an *ex ante* basis and implies the regulator has an unbounded degree of discretion available *ex post* to determine what it considers reasonable, which is not the case.

(23) Companies cannot make financing decisions *ex post* taking into account how markets have moved. This *ex post* determination introduces a material disconnect between how companies raise finance based on ex ante market expectations and regulatory policy applied *ex post*.

(24) It is impossible for companies *ex ante* to know whether debt raised efficiently (for example in line with the benchmark) will be reflected in regulatory policy in future AMPs and costs recovered over time.

[9] Anglian, Additional Points on Cost of Debt, Response to CMA's Cost of Capital Consultation (REPCOC001); AWS response to CMA working paper databook FINAL.

[10] See for example, Ofwat, Reference of the PR19 final determinations: Cost of capital – final response to working papers, page 30 (2021).

(25) Ofwat has confirmed that its policy may depart from a 15Y trailing average in subsequent price reviews depending on how markets have moved[11] – the absence of *ex ante* commitment to a clear policy undermines the predictability and stability of the regime and drives a wedge between Ofwat policy and competitive market outcomes for long term infrastructure financing.

(26) Time-inconsistency problems cause wider issues when stakeholders lose confidence in the policy making. We note that Moody's downgraded the water industry[12] highlighting that PR19 undermined the predictability and stability of the regulatory regime. Sudden changes in policy, *ex-post,* undermine predictability and stability and increases exposure to risk.

3.2 Companies have control over much of their cost base but cannot control interest rates

(27) The CMA has selected a 4.52% point estimate (the low end of the range from industry actuals derived by CMA). For companies with a higher cost of debt than the point estimate this implies that companies bear 100% of under-performance, whilst companies which have a lower cost retain 100% of out-performance.

(28) Cost sharing rates are ordinarily calibrated based on inter alia whether cost is controllable by companies. Where cost is not controllable by companies it is set on close to a pass through basis (e.g. the CMA's decision on cost sharing for business rates).[13]

(29) Applying this principle to financing (where interest rates are not controllable by companies) would imply that all out-performance should be shared with customers and under-performance borne by customers. This is the opposite of the policy currently applied by setting the cost of debt based on the industry average.

(30) The CMA's policy assumes that where totex out-/under-performance is shared with customers this is driven by company efficiency. This is not the case with the majority of financing performance, which is driven by (1) how markets have moved (which companies cannot control); and (2) different risk positions adopted by some companies.

3.3 New Ofwat evidence is not robust and cannot be relied upon

(31) Ofwat has included a number of additional data points in its latest submission which we consider to be misleading. We have provided evidence on these in detail in the appendix.

(32) In particular the new 'tenor at issue' analysis carried out by Ofwat which is flawed as it (1) includes debt issued after 31 March 2020 which is not meant to be captured by the embedded debt allowance for AMP7; (2) excludes debt issued before 31 March 2000 which forms parts of the sector's AMP7 embedded debt portfolio and is relevant in the calibration of the trail; (3) represents a median of simple averages rather than a pure median observation – Ofwat first calculates annual simple averages for instruments issued in each year and then derives the median on their basis; and (4) includes both outstanding and matured debt – the latter is not directly relevant for pricing AMP7 debt.

[11] Ofwat highlights that its methodology may evolve depending on how markets have moved which could result in departures from the current approach (Ofwat Final Response to WACC Working Papers, 27.1.21, para. 3.6):

we have evolved, and will continue to evolve, our approach where appropriate… a 15 year trailing average as the starting point for our assessment at PR24 (and would need a good reason to change). However, we would need to take into account all the relevant circumstances at the time, including the financing conditions closer to time of our PR24 determinations.

[12] Moody's Proposals Undermine Stability and Predictability of the Regime, pages 4 to 5 (Anglian SoC 457)

[13] CMA PFS, para 4.640

(33) Correcting for these errors implies average tenor at issue higher than 20Y. Moreover Ofwat includes debt with tenor of less than 10Y (which Ofwat has previously excluded from its analysis on the basis that it could provide perverse incentives and increase refinancing risk).[14]

3.4 A 15Y trailing average cannot be applied in combination with the collapsing average methodology

(34) A 15Y collapsing average cannot be right as it implies the allowance will include no pricing data at all from before the global financial crisis (i.e. pre 2010) from the beginning of AMP8.

(35) Correcting the 15Y trailing average to remove the 'collapsing' methodology would imply a cost of embedded debt of 4.72%. It would also imply the number of years to maturity for the industry would be too short considering the long-life nature of the assets of the industry.

[14] DD, cost of capital annex, p. 67

Cost of Equity

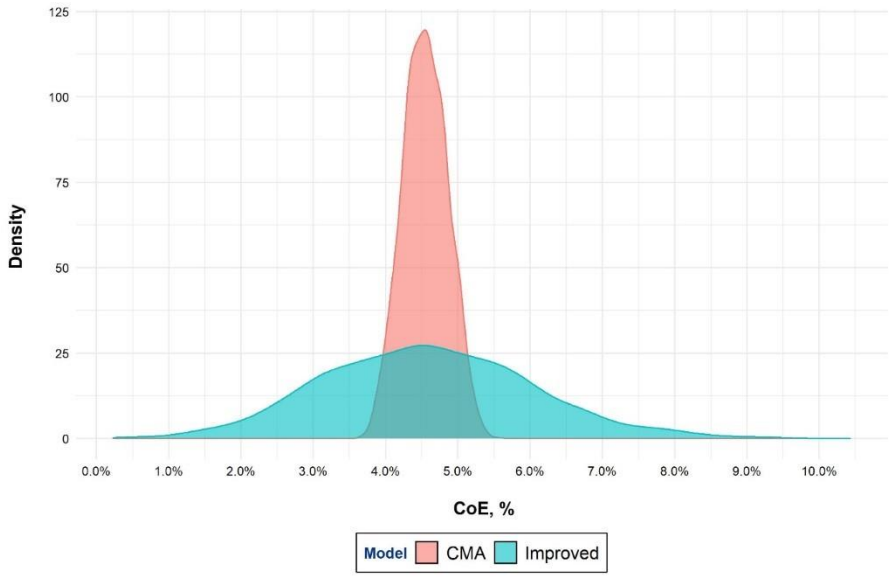
1 Probability distributions around the Cost of Equity

(36) Anglian disagrees with Wright and Mason (W&M) that the CMA should be careful not to create a 'Monte Carlo industry' nor undertake a 'narrow statistical exercise'.[15] Modelling the probability distribution for the CoE is an important part of the evidence base when aiming-up. This is particularly the case where comfort is being gained from achieving certain percentiles.

(37) Estimating the probability distribution analysis is a statistical exercise, that should be treated as such, when aiming-up. Indeed, in the case of beta, the standard errors are readily available from the regression results.[16] It is difficult to see the rationale for ignoring standard errors from the underlying data, and instead applying judgment.

(38) Ofwat and W&M have disputed the aiming-up amounts presented in Anglian and Northumbrian's probability distribution analysis, on the basis that the results are distorted upwards because of the higher mean CoE in the simulations.[17] However, it is the *relative* uplift that matters for the amount of aiming-up to achieve certain percentiles, rather than the absolute numbers. Figure 5 below illustrates this point graphically by setting the mean CoE for Anglian and Northumbrian's probability distribution models to be equivalent to the CMA's. It is evident that the wider distribution remains, such that the degree of aiming-up, to achieve a given percentile under the two models, remains materially different.

Figure 5 CMA probability distribution compared to distribution that takes into account underlying standard errors in TMR and beta – with equivalent means



2 TMR averaging

(39) At this very late stage in the process, Ofwat and W&M appear to be suggesting that the CMA should now assume a material degree of serial correlation.[18]

[15] Wright and Mason, Comments in response to the CMA roundtable on the cost of capital, para. 2.1.1 (January 2021).

[16] See Gregory et al, Notes on the simulation exercise' Response to CMA's Cost of Capital Consultation (REPCOC002).

[17] Ofwat, Reference of the PR19 final determinations: Cost of capital – final response to working papers, para. 2.13 (2021).

[18] Ofwat, Reference of the PR19 final determinations: Cost of capital – final response to working papers, paras. 2.53-2.55 (2021).

(40) In this regard, we note that regulatory precedent and the weight of academic literature, supports the current CMA position of assuming that there is insufficient evidence of material serial correlation to take a firm position on return predictability. Indeed, this was the position adopted in the UKRN report, which W&M co-authored:

"We are unable to point to a methodology that would capture predictability of the EMR that would be as straightforward to implement as the existing approach, nor—given the still-contested and partial nature of the evidence for predictability—that would be robust to criticism."[19]

(41) In the WACC roundtable, analysis by PwC was referred to, which suggested that there was a large degree of serial correlation and in turn that an uplift as low as 0.3 percentage points from the geometric mean could be justified.[20] However, PwC's latest submission to the CMA demonstrates that the uplift of 0.3 percentage points was downward biased due to the use of overlapping returns in the analysis.[21] The CMA should not therefore place weight on this evidence, when considering the appropriate approach to averaging.

3 Beta

(42) Ofwat suggests there will be more pandemics in the future.[22] We agree with Ofwat that the frequency of pandemics in the future is a relevant consideration, when considering how to treat the Covid period for the purposes of beta estimation. However, it is unclear how Ofwat can take a firm view on i) what is inherently a known unknown and ii) a topic, which clearly sits outside its area of expertise as a utility regulator.

(43) However, we do know that in the past global pandemics of a similar scale have occurred every c.100years.[23] Therefore, placing weight on a long-run beta estimate – using data since 1991 - already assumes a higher frequency of pandemics going forwards than the long run past – being c.1 in 30 years. Further, placing weight on 2- or 5-year betas assumes that a global pandemic will occur every other year or 1 in every 5 years, respectively, which is difficult to defend, given the historical evidence.[24]

4 Risk Free Rate

(44) The main area of challenge from Ofwat and W&M following the CMA's PFs, was the identity of the marginal investor in the Brennan model and the extent to which the appropriate question is the marginal investor in the water sector or the market. We note that W&M in their most recent submission have helpfully now clarified that the relevant marginal investor is the marginal investor 'in the market', consistent with our previous statements on this issue.[25] This effectively endorses the CMA's approach in the PFs and confirms that a concern raised in response to the PFs by Ofwat and its advisors was unfounded.

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[19] *See* Recommendation 5 of Wright et al (2018) (SOC423), prepared for the UKRN.

[20] Professor Gregory suggested that use of overlapping returns may well be the source of the unusual findings in the PwC analysis. *See* Cost of Capital Roundtable Transcript, page 131, lines 1 and 2 (20 January 2021).

[21] PwC, Setting the TMR assumption: adjusting geometric returns, para. 14 (January 2021).

[22] Ofwat's final response to the cost of capital working papers, para. 2.41.

[23] Spanish flu, the last pandemic of a similar scale to Covid-19, was in 1918.

[24] This is because the period of time over which markets have been exposed to the Covid pandemic is c.1 year (or will be by the time the CMA takes a final cut of the data). So, a 2-year period places 50:50 weight on Covid vs normal times, whereas a 5-year period places 20:80 weight and so on.

[25] See KPMG analysis of Ofwat's reply to the PFs, para. 3.2.4 and Wright and Mason, Comments in response to the CMA roundtable on the cost of capital, para. 1.1.4 (January 2021), which appears to accept that in theory R* is an economy wide concept.

(45) Ofwat and its advisors advance various arguments that there is likely to be a liquidity premium on AAA corporate bonds[26] driven by the infrequent nature of their trading. Similarly, in the WACC roundtable and in various submissions, Oxera has argued that there is a clear convenience premium on ILGs.[27] Both benchmarks are likely to suffer from some form of market distortions, which are difficult to measure accurately. Either all benchmarks should be adjusted for such distortions (e.g. ILGs uplifted for convenience premia) or a range of unadjusted benchmarks should be used, acknowledging that not one benchmark perfectly meets all the RFR criteria. The CMA has done the latter,[28] which is appropriate in light of past precedent and the inherent difficulty in measuring the size of the distortions.[29]

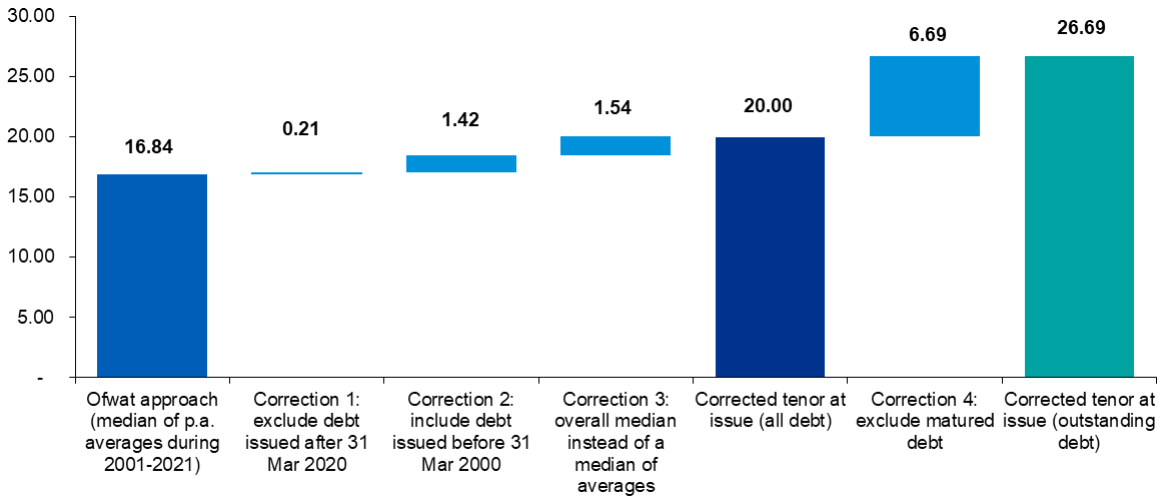
[26] Ofwat's final response to the cost of capital working papers, paras. 2.53 - 2.55.

[27] Oxera, The cost of equity for RIIO-2: Q3 2020 update, page 9 (4 September 2020) available here.

[28] CMA's PFs, paragraph 9.140

[29] We note that the CMA uses an estimate of the liquidity premium when computing debt beta. However, this is for a different exercise and as the CMA acknowledges, one of the drawbacks of the decomposition approach to estimating debt beta is the difficulty of estimating liquidity and other premia within the spread accurately. *See* for example CMA's PFs, paras. 9.314 and 9.316

Appendix: Rebuttals to Ofwat's 27 January Submission

Issue	Anglian's response
Sector average tenor at issue	Ofwat argues that 15Y trailing average is supported by 16.8Y median tenor at issue for 2000-20 debt. This figure is misleading because it: (1) includes debt issued after 31 March 2020 which is not meant to be captured by the embedded debt allowance for AMP7; (2) excludes debt issued before 31 March 2000 which forms parts of the sector's AMP7 embedded debt portfolio and is relevant in the calibration of the trail; (3) represents a median of simple averages rather than purely a median observation – Ofwat first calculates annual simple averages for each year and then derives the median on their basis; and (4) includes both outstanding and matured debt – the latter is not directly relevant for pricing AMP7 debt. Correcting Ofwat's estimate for the first three errors yields a tenor at issue of 20Y for all debt issued up to 31 March 2020. This is consistent with the time to maturity of the iBoxx benchmark as well as the iBoxx Utilities index (which tracks only Utilities bonds over time). Further adjusting the estimate to reflect only outstanding debt as at 31 March 2020 results in an implied tenor at issue of 27Y. Notably, Ofwat includes debt with tenor at issue less than 10Y (which it elsewhere correctly excludes from its analysis of sector financing as well as from the benchmark index selected gives implied refinancing risk). The median tenor at issue after correcting for Ofwat's errors and excluding debt with tenor at issue shorter than 10Y is 30Y.[30] **Figure 6 Correcting Ofwat's estimate of tenor at issue** 
Floating rate debt %	Ofwat in error considers sector exposure to floating debt to be c.15%. This is not correct as we have shown in previous responses. Floating debt in 2018/19 is 5-6%[31] and 7.5%[32] on average over the last 5 years. Excluding floating debt raised to finance cash (i.e. non-RCV assets) results in c.2-3% floating debt on average across the sector.

[30] DD, cost of capital annex, p. 67

[31] Anglian, Additional Points on Cost of Debt, Response to CMA's Cost of Capital Consultation (REPCOC001); AWS response to CMA working paper databook FINAL.

[32] Ibid.

20Y investment horizon introduces a new constraint on notional structure	This is fundamentally inconsistent and goes against past Ofwat policy as (1) Ofwat has previously excluded short term debt from its analysis of industry average costs (most recently at PR14[33]); (2) has selected a 20Y benchmark index for the last two price controls; and (3) has incentivised long dated issuance over time.[34]
New to embedded debt ratio	Ofwat's estimate of the refinancing new debt is flawed as it assumes 1/15 debt matures each year, which 5Y less than the sector average tenor and the tenor of the benchmark Ofwat argues that the 3.9% contribution from RCV growth used by the CMA may be an underestimate as it is based on applying the notional gearing assumption to real RCV growth and would understate the new debt requirement. First, Ofwat's rationale for estimating the contribution on nominal basis is flawed because it, in error, implies that the sole driver of the new debt requirement is RCV growth and the business is otherwise cash neutral. Water companies have been since privatisation, continuously cashflow-negative, resulting in part from their capital-intensive investments exceeding returns. This means that their cash outflows exceed cash inflows in any given year, and that the debt requirement does not arise solely to finance RCV growth. This means that companies do not need to raise new RCV related debt to maintain the target gearing level. Second, the approach to estimating the contribution from nominal RCV growth is flawed: (1) As acknowledged by Ofwat, its estimate uses out of date inflation profile which does not capture the near-term deflationary impacts of the Covid-19 crisis. All else equal, this overstates the new debt requirement; (2) Ofwat only reflects the indexation of the RCV whereas in reality some of this growth would be offset by the indexation of notional index-linked debt. All else equal, this overstates the new debt requirement; (3) Ofwat does not account for the assumed reduction in notional gearing of 2.5% since PR14. All else equal, this overstates the new debt requirement; As a result, Ofwat's analysis is flawed and should be disregarded.
Ofwat past policy	Ofwat reviews the speech from Philip Fletcher in 2002 and comments that "*there is nothing obvious to indicate support for 20 year over 15 year tenors*."[35] This is clearly misleading. Philip Fletcher recognises that companies "*seek to match their financing structure to their cash flows*"[36] and at the time the duration of cashflows was 20-25Y based on run off rates.
Asset liability matching	Ofwat considers that "*as consequence of these protections is that there is no reason to consider that company treasury policies (or the regulatory determination of trailing averages for embedded debt) should by underpinned by underlying asset lives*."[37] The protections cited by Ofwat (e.g. license extension) are not relevant as asset liability matching is undertaken to hedge against exposure to movements in interest rates, inflation (which Ofwat protections cited do not address).

[33] Ofwat, Setting price controls for 2015-20 – risk and reward guidance, footnote 24 (January 2014) available here. "*The average yield across 10-15 and 15+ year water company bond issuances from 2000 to present is approximately 5.0%*."

[34] *See* Anglian's Response to the CMA's PFs, page 91.

[35] Ofwat, Reference of the PR19 final determinations: Cost of capital – final response to working papers, page 33 (2021).

[36] Philip Fletcher Speech, Protecting consumers, protecting value and safeguarding the future available here.

[37] Ofwat, Reference of the PR19 final determinations: Cost of capital – final response to working papers, page 32 (2021).